HOUSING MARKET INFORMATION

# HOUSING MARKET OUTLOOK
## Vancouver and Abbotsford CMAs

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2016

## Highlights[1]

- After a record year of housing starts, new home construction is projected to settle lower but remain above the five-year average level, in line with population-based demand.
- MLS®[2] sales are forecast to slow to the end of 2016 with a further weakening of sales in 2017 before leveling off in 2018.
- Average MLS® prices will be higher in 2016 with strong price growth in the first half of the year. Prices are expected to increase modestly in 2017 and 2018.

Figure 1

Source: CMHC (F): Forecast

[1] The forecasts and historical data included in this document reflect information available as of September 30, 2016.

[2] MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

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- High demand for rental housing will sustain low vacancy rates and lead to higher rent levels. The addition of newly completed rental units to the market will ease vacancy rates somewhat in 2017 and 2018.
- Employment and population growth will be the main drivers of housing demand, with further support from relatively low interest rates.

## New home starts to soften after record year

Housing starts in the Vancouver Census Metropolitan Area (CMA) are expected to reach a record high this year, before trending lower into the forecast horizon. Despite a softening outlook in 2017 and 2018, housing starts are anticipated to be above the five-year average of 19,100 home starts. In the short term, a below-average supply of resale home listings will augment the demand for new homes.

Continued demand for new housing over the next couple of years is supported by a narrowing gap between new and resale home prices[3] along with growth in employment and population. As multi-family homes typically require more time to build, the number of homes under construction has been growing since 2011. Meanwhile, the strength in demand has caused inventories of unsold new homes to diminish. Close to 60 per cent of detached homes and nearly 100 per cent of town houses and apartments were absorbed upon completion in August. Moving forward, the number of multi-family homes under construction will remain elevated through the forecast period due to the above-average level of starts this year. However, solid demand fundamentals will likely maintain a low inventory of unsold homes.

After a record year in 2015, home building is up by nearly 40 per cent in the first eight months of this year, led by growth in multi-family starts – almost 50 per cent for apartments and 42 per cent for town homes. This may be due to the price of detached homes becoming more and more out of reach[4] for many people, and also reflects efforts to increase density to accommodate a growing population in an area with limited developable land. Overall home building activity has been concentrated in the cities of Vancouver, Surrey, Burnaby and Richmond this year.

Year-to-date starts of single-detached homes were up 15 per cent as of August and are on track to be between 14 and 19 per cent above the five-year average level in 2016. Rising land values and an older housing stock will continue to encourage laneway home construction and replacement housing, adding to single-detached starts. Detached home construction will slow down in 2017 and 2018 but remain above the 10-year average. Detached homes starts in Vancouver and Surrey accounted for more than half of all detached construction so far in 2016, while detached home building in North Vancouver City and New Westminster posted the largest growth compared to last year. Strong demand for single-detached homes at all price points will keep construction going in diverse markets across the price spectrum – from the relatively expensive west side of Vancouver and North Vancouver to more affordable areas like Surrey and Maple Ridge.

Including 2016, multi-family housing starts have increased in six of the past seven years. Looking ahead to the following two years, construction of multi-family homes is expected to moderate to levels comparable to 2014. The longer construction time of condominium apartments, combined with a limited supply of construction equipment and skilled workers in the region, is contributing to the moderation of multi-family starts. Population growth in the outlook period will be driven by millennials and retirees, which may boost demand for multi-family homes.

### Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided on page 8 of the publication.

[3] Between 2014 and the first eight months of 2016, the average monthly gap between median prices of new and resale detached homes fell 40% to $201,000.

[4] The average price of a new single-detached home in the first eight months of the year was $1.8 million.

The concentration of multi-family construction in central areas and their affordability relative to other housing types will also maintain demand for these homes. The construction of town homes in Surrey, Langley and Maple Ridge accounted for nearly three-quarters of all starts of this home type. Home building activity for apartments was highest in Vancouver, Richmond and Burnaby. The trend of increasing density along Skytrain lines will continue as builders gear their projects to homebuyer preferences for central locations, low-maintenance living and less driving.

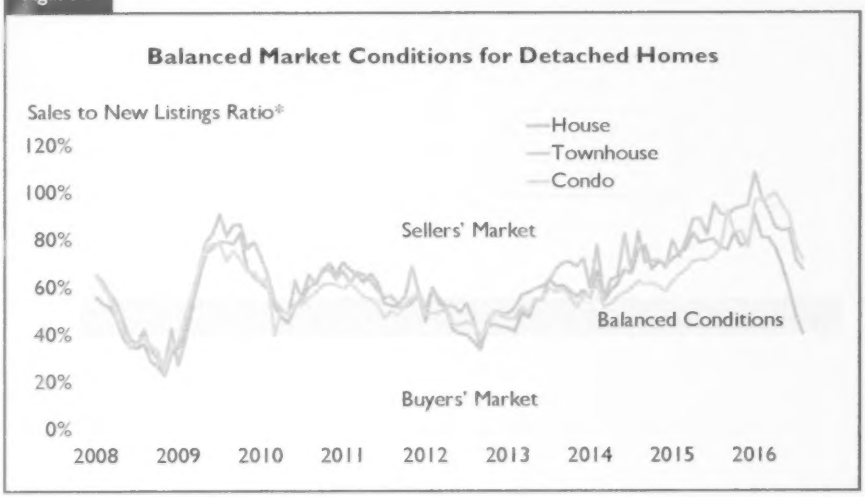
## Greater Vancouver[5] resale market to moderate

Lower MLS® sales in the months following the record number of resale home purchases in the first quarter were further subdued by the introduction of the Foreign Buyers' Tax (FBT) in August. Sales in July and August were lower, year-over-year, for the first time in more than three years. Year-to-date sales in August were flat for single detached homes, down two per cent for town houses and up 22 per cent for apartments. MLS® sales this year are expected to slow after three consecutive years of double digit gains. Even with the downward trend in the latter part of the year, total sales in 2016 will remain well above the 10-year average of just over 33,000 transactions. As the resale home market in Greater Vancouver adjusts to the FBT, sales in 2017 are forecast to be weaker given the lower starting point, but will remain slightly above the ten-year average, with some levelling off in 2018. A potential increase in mortgage rates may also have a dampening effect on sales in the outlook, while positive underlying demographic and economic fundamentals are projected to support housing demand.

Figure 2

Source: CMHC (F): Forecast

Figure 3




Source: REBGV, CMHC calculations, *Seasonally adjusted

Housing markets in most areas of the CMA are expected to slowly move towards more balanced conditions. Regions and segments of the housing market which are hot will moderate and those that have already normalized will remain under balanced conditions. Since the spring, the sales-to-new-listings ratio shifted down for all segments in the market (Figure 3). Multi-family homes continue to favour sellers while detached homes have reached balanced market conditions in some

[5] This section deals with the resale market in the Real Estate Board of Greater Vancouver area. This area does not include Surrey, Langley, White Rock, or North Delta. Please see the Fraser Valley resale section for commentary on these communities as well as the Abbotsford-Mission CMA.

areas. This recent easing of resale home market conditions has contributed to the first year-over-year decline in the monthly MLS® average home price in more than three years. Nevertheless, a shift in the composition of sales influenced the lower price. Apartment condominiums increased 10 percentage points in their share this year to account for over half of total sales in August, while the share of detached home sales fell 13 percentage points to account for less than one third. With a widening price gap between single detached and multi-family homes, first-time buyers and repeat buyers with limited equity in their home will continue to support demand for multi-family dwellings.

The MLS® average price is expected to rise conservatively through the forecast period. Following strong year-over-year price growth in the first seven months of the year the average price is forecast to be between $957,400 and $1,056,600 this year. Along with a larger share of condominium apartment sales this year, there has been a declining proportion of very expensive[6] detached homes sold (Figure 4). A continuation of these factors could lead to an average price in the lower end of the price range (Figure 5). Also, demand may be temporarily reduced as some buyers wait to see imminent impacts on the housing market from recent policy changes. For the first eight months of the year, average prices rose 25 per cent for detached homes, 24 per cent for townhouses and 16 per cent for apartments, year-over-year. In 2017, the average MLS® price is expected to rise modestly, having started from a lower price point at the end of this year, before growing more in line with the long-term average in 2018. Housing demand will be reinforced by population and employment growth through the forecast horizon.

Figure 4

Source: REBGV, calculations CMHC

Figure 5

Source: CMHC (F): Forecast

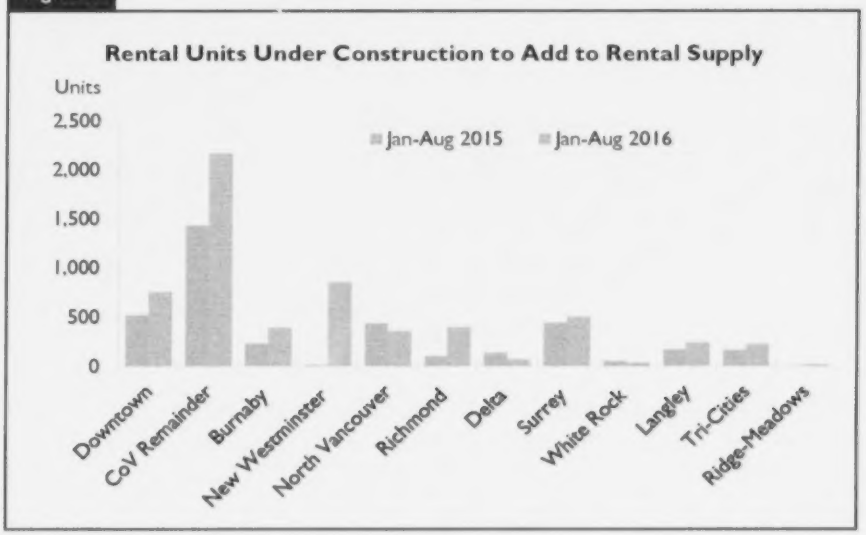
* Sales of detached homes priced at least 1.5 times the local Benchmark Price

## New supply to alleviate some rental market pressures

Rental demand is expected to remain high into the forecast horizon, with positive net migration and a sustained imbalance between incomes and home prices in Vancouver CMA. The high price of homes in the region is anticipated to defer the flow of renters into homeownership as it takes longer to save for a down payment. Vancouver's population is forecast to expand 1.4 per cent in both of the next two years, supported by growth in employment, adding to rental demand.

Despite additions to the purpose-built rental universe and investor-held condominiums used for rental over the past several years, supply has not been keeping up with demand. The increasing popularity of short-term rentals in the City and areas around the Vancouver core has taken some units off the long term rental market, adding further pressures to the already low rental vacancy environment. With rental demand outpacing supply, the vacancy rate will likely reach a low of 0.5 per cent this year, then rise to about one per cent in the subsequent two years as the record number of rental units currently under construction start coming onto the rental market. The year-to-date number of rental units under construction is 63 per cent higher than in 2015, at over 6,000 units.

Figure 6




Source: CMHC

## Housing demand reinforced by economic and demographic conditions

Demand for housing is expected to persist in the Vancouver CMA through 2018, supported by relatively low mortgage rates, population growth and job creation. In the first eight months of this year, employment grew by 77,300 jobs, with the majority of growth in the full-time category. This employment growth is on top of 22,000 jobs that were added in the CMA in 2015. Growth in two industry groups alone: wholesale and retail trade, and information, culture and recreation, accounted for over half of the employment gains in Vancouver to date this year. As one of Canada's top destinations for film and TV production, activity in the information, culture and recreation industry group is anticipated to remain elevated given the relatively weak Canadian dollar. Other industries with high employment growth include manufacturing, health care and social assistance, and construction (which includes non-residential and residential).

Employment opportunities and a comfortable climate are two of many factors that will continue to bring people to the area into 2018. Vancouver's population is forecast to expand by 34,500 to 36,400 persons each year from 2016 to 2018, above the five year average. Since 2005, an estimated 158,000 new households were added in Metro Vancouver[7].

[7] BC Statistics, P.E.O.P.L.E. 2016 population and household growth estimates projections.

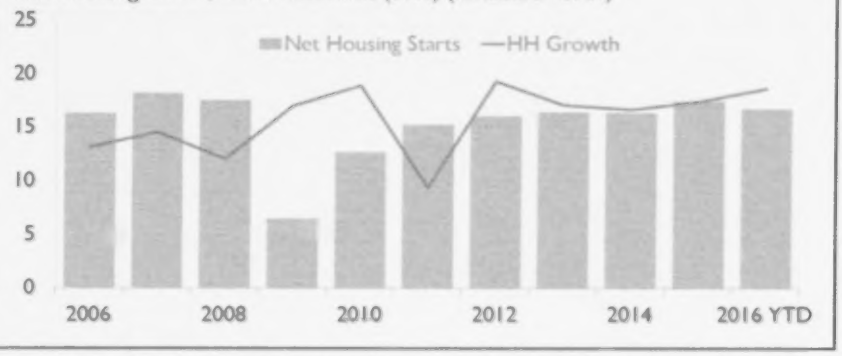
During the same period, the housing stock grew by an estimated 153,000 units (starts less demolitions) (Figure 7). This imbalance between supply and demand has also contributed to price growth. This population-based demand will underpin sales and starts through the forecast horizon.

A moderately weaker Canadian dollar along with higher employment and population will contribute to greater consumer spending. In addition to local spending, increased tourism is also expected to boost the economy. So far this year, total international tourists arriving in Vancouver through the airport, seaport and border crossings were 12 per cent higher than the same period last year, following 8 per cent growth in 2015. The number of travellers arriving to the Vancouver International Airport from the US and elsewhere reached a record in July[8]. Adding to this trend, the number of Canadian visits to Vancouver CMA and their associated expenditures were up 4.4 and 11.3 per cent, respectively, in 2015[9]. Among the 10 provinces, BC had the highest year-over-year growth of retail sales in July. The value of retail sales in Vancouver recorded double digit growth last year[10], coinciding with the addition of a shopping centre and a large retailer. The opening of the Tsawwassen Mills Outlet Mall in October, the lower Canadian dollar and a growing appreciation for Vancouver as a tourist destination are likely to draw more people into the area over the next several years.

Figure 7

**Supply of Housing Just Shy of Population-Based Demand**

**Net** Housing Starts*, New Households (000s) (Vancouver CMA)




Source: CMHC, Statistics Canada, BC Stats. Net Housing Starts* = Housing Starts – Demolitions

According to the BC Major Projects Inventory which tracks projects valued at $15 million or more, over 40 major construction projects exceeding $9.2 billion in value are proposed to begin from now through 2018. As a result, employment in construction, both non-residential and residential, will be strengthened. Nearly half of these projects contain a housing component which is expected to help meet housing demand in the future. In addition to residential construction, the projects include transport networks, sewage facilities, energy infrastructure, hospital redevelopment and expansion, as well as the construction of a new Vancouver Art Gallery.

## Mortgage rates are expected to rise modestly over the forecast horizon

Mortgage rates are expected to increase very modestly over the period 2016-2018. This is consistent with the expected pick-up over the horizon for inflation and real GDP growth by several forecasting institutions.

According to our base case scenario, the posted 5-year mortgage rate is expected to be within a 4.5 to 4.9 per cent range in 2016 and within a 4.4 to 5.2 range in 2017. For 2018, the posted 5-year mortgage rate should lie within a 4.5 to 5.7 per cent range.

[8] Statistics Canada CANSIM Table 427-0001, CMHC calculations.
[9] Statistics Canada CANSIM Table 426-0027, CMHC calculations.
[10] Statistics Canada CANSIM Table 080-0020, CMHC calculations.

## Wide Range Forecasts

The outlook for the Vancouver housing market this year is for a higher level of starts, prices, and a softening in sales. Some moderation is forecast for 2017 due to a lower starting point for the year as the sector adjusts to a policy shock in the fall of the 2016. In 2018, the housing market outlook will be relatively unchanged from 2017, with a slight moderation in housing starts, a similar level of resales and some upward pressure on home prices. However, there is a degree of uncertainty around the outlook, which increases as we look further into the future. This topic box explores some of the possible situations that could lead to outcomes within the wider range presented in Figures 1, 2 and 5.

While current economic fundamentals are strong relative to the past, there is evidence that housing market imbalances have emerged. According to CMHC's Housing Market Assessment framework (HMA), there is moderate evidence of overheating and price acceleration in the Vancouver CMA, as well as strong evidence of overvaluation. A strong local economy is expected to continue to support demand for housing and price growth. However, if the economy underperforms expectations, there is a risk that the imbalances identified in the HMA could unwind and exacerbate the impact of these weaker than expected economic conditions. This could cause housing market activity and prices to be in the bottom end of the forecast range. As well, the August 2016 introduction of a tax on foreign entities may dampen sales and price pressure in the Vancouver market[11].

Alternatively, the Vancouver housing market would see levels of starts, sales and prices in the upper part of the outer range presented in this report if the market bounces back stronger than expected. Economic fundamentals such as low interest rates, employment and population growth could support outcomes in the higher segments of the forecast ranges.

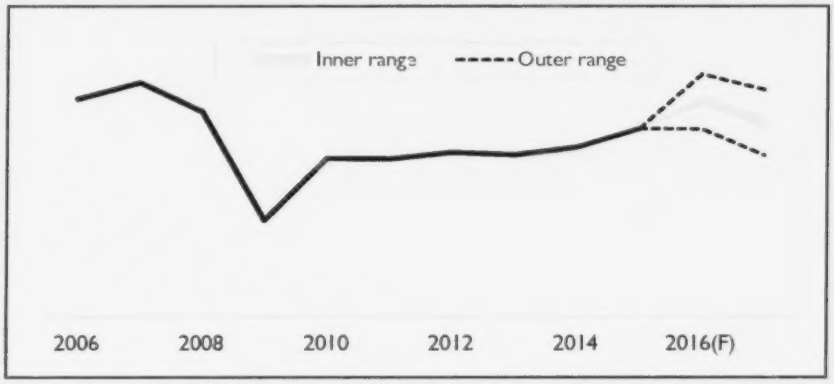
[11] On July 25, the B.C. government announced a 15-per-cent tax on home purchases by foreign entities in the Greater Vancouver Regional District. The new tax took effect on August 2.

## Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.




* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

## Trends at a glance

| Key Factors and their Effects on Housing Starts | |
|---|---|
| Mortgage Rates | Mortgage rates are expected to stay near current levels until the end of 2016, before rising modestly over the forecast horizon. This should contribute to a slight moderation in housing demand by the end of 2018. |
| Population | Immigration and interprovincial migration will continue to increase population in the area over the next few years, adding to housing demand. |
| Employment | Employment growth remains the strongest in the province, sustaining housing demand in homeownership and rental. |
| Resale Market | More balanced conditions expected in the outlook. Positive fundamentals will continue to support activity in the resale market with sales moderating and prices growing modestly. |
| Supply of Newly Completed and Unabsorbed Units | Low inventories of new and unsold homes will persist given a high absorption rate. |
| Absorbed New Units | High absorption rates for all home types will be reinforced by a positive employment environment and growth in household formation in the CMA. |

## Risks to the outlook

A number of upside and downside risks present uncertainty to the outlook.

- The newly implemented tax on home purchases by foreign entities in Greater Vancouver may lessen housing demand, particularly at the high end of the market, leading to weaker price growth.
- Slower than expected growth in the economy may defer the raising of interest rates. This could result in more people trying to get into the housing market and boost sales. On the other hand, there are risks to financial stability as Canadians may be taking on high levels of debt given home prices in the CMA and exceptionally low interest rates.
- A sharper-than-expected slowdown in economic growth in China would negatively affect Canada and particularly Vancouver, through weaker demand for Canadian exports as well as downward pressure on commodity prices. This could lead to starts, sales and home prices in the lower part of the forecast range.
- On a positive note, a stronger US dollar and growing US economy could boost tourism and export-related industries across British Columbia, stimulating growth in tourism, retail, and manufacturing-based employment that would feed through to housing demand.

### The impact of mortgage regulation changes

On October 3, the Government of Canada announced measures designed to support the health and stability of Canadian housing markets and housing finance system. The measures include new eligibility rules for high ratio insured mortgages (where the loan to value ratio is greater than 80%) and new eligibility criteria for low ratio insured loans (loan-to-value less than 80%) that previously only applied to high ratio mortgages. Under the new measures, all high ratio mortgages will now be "stress tested" to ensure borrowers can afford their loan if interest rates rise. Borrowers will now have to meet higher debt servicing limits calculated using the greater of the contract rate and the Bank of Canada's 5 year posted rate. The latter is currently more than 2% higher than typical contract rates. This "stress test" approach has been applied since 2010 to variable rate mortgages and fixed rate mortgages of a term of less than 5 years. Applying this stress test to loans with terms of five years and longer extends this test to all high-ratio insured mortgages.

As the policy just took effect, it is difficult to precisely evaluate the impacts on housing markets. In general, an increase in mortgage rates affects house prices, sales, and starts negatively. However, the stress test approach affects the size of the insured mortgage for which the home borrower qualifies and it is not an increase in the mortgage rate itself. As a result, borrowers could adjust

their purchase behaviour in several ways. For example, they could purchase homes that are less expensive, add more down payment, delay their purchase in order to save additional funds for down payment, or add a co-signor. According to our analysis, from 5 to 10 per cent of all prospective home buyers could be affected during the first year of implementation, but the precise impact will vary depending on specific homebuyer circumstances and behaviours. Considering regional variations in drivers of housing activities, it is also likely that the impact of the announced changes could be different across the country.

Taking into account all possible scenarios, the impacts on house prices, sales, and starts are within the lower band of our outer forecasting range that is designed to capture unexpected economic and financial developments, as well as unforeseen regulatory changes at the local, provincial, and national levels.

| Forecast Summary<br>Vancouver CMA<br>Fall 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016(F) | | 2017(F) | | 2018(F) | |
| | | | | (L) | (H) | (L) | (H) | (L) | (H) |
| **New Home Market** | | | | | | | | | |
| **Starts:** | | | | | | | | | |
| Single-Detached | 4,004 | 4,374 | 4,622 | 5,300 | 5,500 | 4,800 | 5,200 | 4,500 | 4,900 |
| Multiples | 14,692 | 14,838 | 16,241 | 20,500 | 21,100 | 17,000 | 18,100 | 15,400 | 17,200 |
| Starts - Total | 18,696 | 19,212 | 20,863 | 25,600 | 26,800 | 21,500 | 23,500 | 20,000 | 22,000 |
| **Resale Market** | | | | | | | | | |
| MLS® Sales | 28,985 | 33,693 | 43,145 | 38,600 | 41,400 | 33,500 | 36,300 | 34,400 | 37,600 |
| MLS® Average Price($) | 767,765 | 812,653 | 902,801 | 957,400 | 1,056,600 | 966,200 | 1,089,900 | 1,006,900 | 1,161,100 |
| **Economic Overview** | | | | | | | | | |
| Mortgage Rate(5 year)(%) | 5.24 | 4.88 | 4.67 | 4.50 | 4.90 | 4.40 | 5.20 | 4.50 | 5.70 |

| | 2013 | 2014 | 2015 | 2016(F) | 2017(F) | 2018(F) |
|---|---|---|---|---|---|---|
| **Rental Market** | | | | | | |
| October Vacancy Rate (%) | 1.7 | 1.0 | 0.8 | 0.5 | 0.8 | 1.0 |
| Two-bedroom Average Rent (October)($) | 1,281 | 1,311 | 1,368 | 1,420 | 1,460 | 1,500 |
| One-bedroom Average Rent (October)($) | 1,005 | 1,038 | 1,079 | 1,120 | 1,150 | 1,180 |
| **Economic Overview** | | | | | | |
| Population | 2,438,730 | 2,475,736 | 2,504,340 | 2,538,800 | 2,575,600 | 2,612,000 |
| Annual Employment Level | 1,247,600 | 1,276,300 | 1,298,500 | 1,366,000 | 1,404,300 | 1,446,400 |

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

This table presents resale data and forecasts for the Real Estate Board of Greater Vancouver (REBGV) area.This area does not include Surrey - Langley - White Rock or North Delta which are part of the Vancouver CMA but not within the REBGV boundaries.

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 30th September 2016. (L)=Low end of Range. (H)=High end of range.

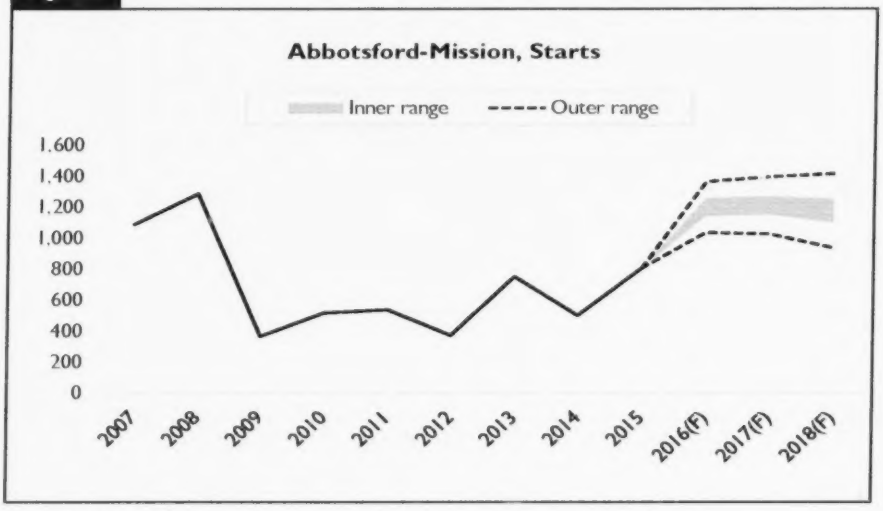
It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2016-2018).

## Abbotsford-Mission CMA highlights[12]

- Strong level of housing starts, supported by economic and demographic fundamentals, expected from 2016 to 2018.
- MLS® residential sales to pullback in 2017 after record levels in 2016. MLS® sales will increase in 2018[13].
- MLS® average prices to grow at a slower pace in 2017 and 2018 due to fewer sales and a compositional shift in MLS® sales favouring lower priced multiple-family units.
- Favourable economic conditions, such as a low Canadian dollar, will underpin the local economy, generating employment and population growth in 2017 and 2018.

Figure 8




Source: CMHC, (F): Forecast

Figure 9

Source: CREA, (F): Forecast

## Higher level of housing starts expected in the Abbotsford-Mission CMA

Over the next couple of years, housing starts in the Abbotsford-Mission CMA are expected to be at levels similar to those before the economic downturn of 2009. Supported by positive economic and demographic fundamentals, demand for new homes has picked up considerably since the spring of this year. As indicated by the Inner range shown in Figure 8, housing starts in the CMA will range from 1,140 to 1,260 units in 2016 and move slightly higher in 2017, between 1,150 and 1,270 homes. A modest pull-back is expected in 2018 with housing starts ranging from 1,100 to 1,250. The Outer range reflects a degree of uncertainty around the forecast, discussed in more detail in the Forecast Risk section of this report.

Single-detached houses continue to draw strong demand among buyers. One reason for this is lower new home prices compared to neighbouring centres in the Vancouver CMA. In Figure 9, the average price of newly built single-detached homes in the Township of Langley and Surrey has increased at a faster rate than in the Abbotsford-Mission CMA over the last 10 years. With upward price pressure and low levels of newly completed and unabsorbed

[12] The forecasts and historical data included in this document reflect information available as of September 29, 2016.

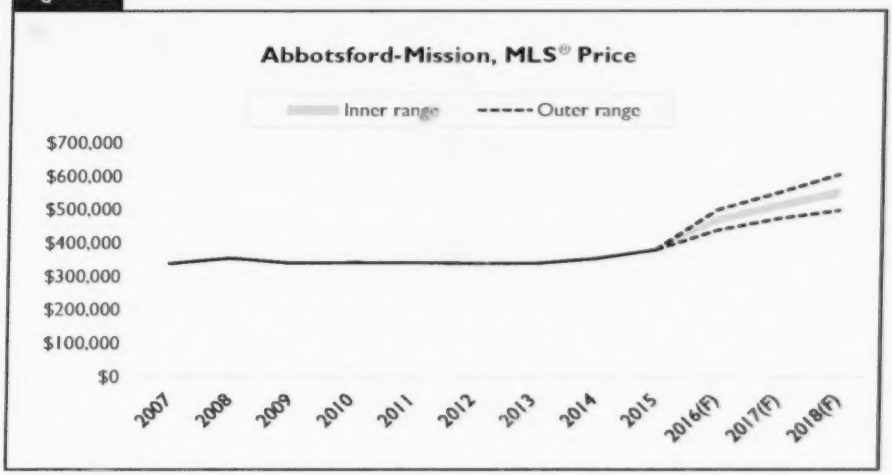
[13] MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

units available, builders are likely to increase starts of this home type. Single-detached housing starts are expected to be in the range of 450 to 530 units in 2016, before moving down between 360 and 450 homes in 2017 and 350 to 440 homes in 2018.

Housing starts in the Abbotsford-Mission CMA will be boosted by new construction in the multiple-family sector. An increase in demand has resulted in a number of high density projects ramping up construction plans. In particular, townhome starts are expected to rise, as lower prices for these units compared to single-detached houses allow buyers to get into a home that has a ground component and usually more space than an apartment condominium.

There has been increased activity in the new rental sector in the CMA. The interest in building new rental units is high as low land costs compared to centres in the Vancouver CMA and favourable financing make these units profitable for developers. The demand for rental accommodation will remain strong as migration increases in the area. Not only is the primary rental market expected to increase in the area, but an increase in new homes in the secondary rental market is expected during the forecast period. Accessory suites construction, which is up 27 per cent this year compared to last year, is the major form of new rental supply being added to the market in 2016.[14] Multiple-family housing starts are forecast to range from 680 to 730 homes in 2016 and to increase further to between 770 to 830 homes in 2017 and 730 to 830 homes in 2018.

Figure 10




Source: CREA, (F): Forecast

## MLS® transactions will remain above 10-year average

MLS® sales in the Abbotsford-Mission CMA are on pace to record their highest level ever in 2016. Solid economic and demographic fundamentals are supporting buyer demand. MLS® sales are further supported by relatively low home prices compared to neighbouring centers in the Vancouver CMA, such as Langley and Surrey, making neighbourhoods in Abbotsford and Mission very attractive for buyers. In Figure 10, MLS® sales are expected to surpass 2015 totals, falling in the range of 4,625 to 4,940 transactions in 2016. Higher prices and mortgage rates will help pullback MLS sales through the remainder of the forecast period. MLS® sales are expected to range from 3,945 to 4,305 in 2017, and then pick up slightly in 2018 from 4,105 to 4,480. Overall, MLS® sales through the forecast period are expected to be well above the 10 year average.[15]

Comprising an estimated 20 per cent of all MLS® transactions in the CMA for the last 5 years, the share of apartment condominium sales to total sales is expected to increase through the forecast period. Lower prices compared to ground-oriented homes (single-detached houses and townhomes) will attract a variety of buyers, including young singles looking for more affordable accommodations and retirees looking for less space and reduced need for maintenance in their properties.[16]

However, the majority of sales in the Abbotsford-Mission CMA will be ground-oriented homes. The attraction of purchasing these types of properties has traditionally been high in the region and is expected to continue through the forecast period, with demand for single-detached homes coming from

[14] As of year-to-date (August 2016), starts of accessory suites in the Abbotsford Mission CMA totalled 100 units compared to 79 units started during the first eight months of last year.

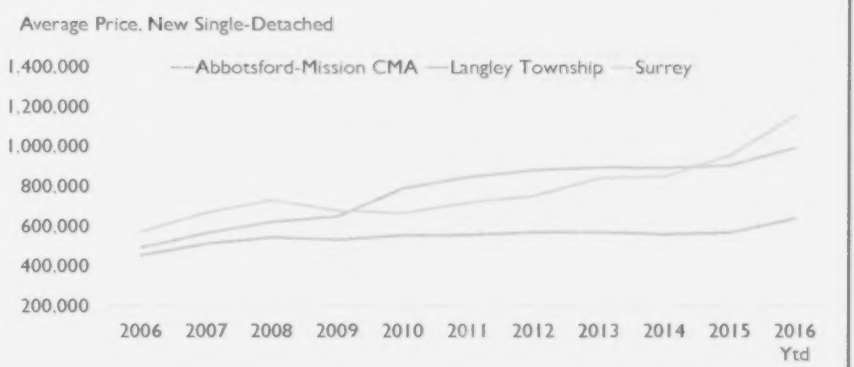
[15] The 10 year average of MLS® sales in Abbotsford Mission CMA is 2,906.

[16] Over the last five years, the MLS® average price for apartment condominium is roughly 39% less than the average price of a townhome and 62% less than the average the price of a single-detached house in the CMA.

young families and move-up buyers while demand for townhomes comes from first-time buyers and people looking to downsize. Demand for ground-oriented homes and limited supply will keep prices elevated. In Figure 11, strong demand and lower active listings this year have pushed up average prices to the range of $456,800 to $480,300. Home prices are expected to rise further, but at a slower pace, with prices ranging from $499,100 to $524,800 in 2017 and $537,400 to $565,200 in 2018.

Figure 11

**New Home Prices Increase Faster in Langley And Surrey Compared to Abbotsford-Mission CMA**




Source: CMHC Market Absorption Survey

## Fraser Valley MLS® sales to normalize after record year

Residential MLS® Sales in the Fraser Valley are expected to trend lower in 2017 after a record year in 2016. In Table 1, MLS® sales will range from 19,500 to 20,200 in 2017 and slightly move up in 2018 to between 20,000 and 20,710. Though resales are expected to be lower than 2016 levels in the forecast period, total MLS® sales will range higher than the 10 year range in the Fraser Valley.[17]

Similar to other real estate markets in the Lower Mainland, strong seller's conditions have pushed up prices to record levels in the Fraser Valley. The average price for 2016 is expected to be in the range of $641,500 to $706,900, well above the $577,507 recorded in 2016. Prices will slow down over the next two years as inventories of new and existing homes trend upwards, giving buyers more choice and time in their home buying decision. Also, MLS® sales of multiple-family homes, in particular apartment condominiums, will pick up as these units are more affordable to both first-time buyers and people looking for a rental investment.[18]

A number of variables are expected to support the resale market in the Fraser Valley through the forecast period. Economic fundamentals, such as job growth and low mortgage rates, will support demand, while population growth, especially among people between the ages 25 to 44, is expected to grow by 2.3 per cent, slightly higher

**Table 1. Forecast Summary**
**Fraser Valley MLS® Resale Market**
**Fall 2016**

| | 2015 | 2016(F) | | 2017(F) | | 2018(F) | |
|---|---|---|---|---|---|---|---|
| | | (L) | (H) | (L) | (H) | (L) | (H) |
| MLS® Sales | 20,055 | 22,900 | 23,700 | 19,500 | 20,200 | 20,000 | 20,710 |
| MLS® Average Price($) | 577,507 | 641,500 | 706,900 | 661,000 | 728,300 | 697,700 | 768,700 |

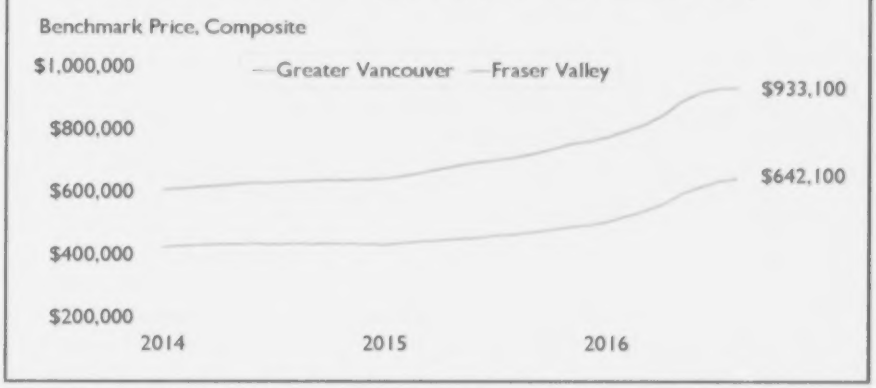
[17] MLS® residential sales in the Fraser Valley Real Estate Board ranged from 12,588 to 20,055.

[18] Though not tracked through CMHC's Condominium Vacancy Survey (CVS), there are a number of people that purchase apartment condominiums and rent them on a monthly basis.

than the 2.0 per cent expected in the Vancouver CMA. Buyers will continue to be attracted to lower home prices in centres in the Fraser Valley compared to centres closer to the Vancouver core (see Figure 12).

Figure 12

**Lower Home Prices Attract Buyers to the Fraser Valley**




Sources: Canadian Real Estate Association, Fred Point, August 2016

## High demand for rental accommodations

High demand for rental accommodations will persist in the Abbotsford-Mission CMA. The rental market is expected to remain tight for renters through the forecast period, with the vacancy rate hovering around one per cent. Similar to homeownership, a variety of age groups, ranging from young people enrolled in a number of post-secondary institutions in the area to retirees looking to downsize, will continue to support rental demand. Abbotsford City will still be the area of choice among renters, but demand for rental accommodation in the District of Mission will remain high as well. One indicator that may reveal more details about vacancy in the CMA will be the first time collection of the turnover rate in this year's fall rental market survey.[19] Though vacancy rates may be low, a high turnover rate would indicate that units do become available for renters.

Rental rates are expected to remain elevated due to high demand for rental accommodations. Supply will remain limited in the near future, with new rental units coming by way of the secondary rental market (condominiums and accessory suites). Further, owners of purpose-built rental properties were not able to increase rents significantly since 2010 due to low rental demand, and now may view the current rental market and the high demand for rental accommodations as an opportunity to increase rents at a higher rate.[20]

## Employment growth will support housing demand

Employment levels in the Abbotsford-Mission CMA are expected to grow in the next two years after a slight pull-back in 2016. Underpinning employment growth will be favourable economic conditions. The biggest catalyst for the local economy has been the relatively low Canadian dollar, which has supported a wide variety of manufacturing in the area. Construction is another industry in the goods sector that is expected to grow as an increase in not only residential, but non-residential construction is expected through the forecast period.[21] Growth is expected in a number of service sector industries. Increased manufacturing will support transportation and warehousing while higher real estate activity will support job growth in related fields such as financing and insurance. Overall, employment growth will underpin housing demand

[19] CMHC will start collecting turnover in rental buildings in this year's fall rental market survey for all major centres across Canada.

[20] Last year's survey (2015) was the first time owners of purpose built rental buildings increased rents above 2% (2.9%) since 2009.

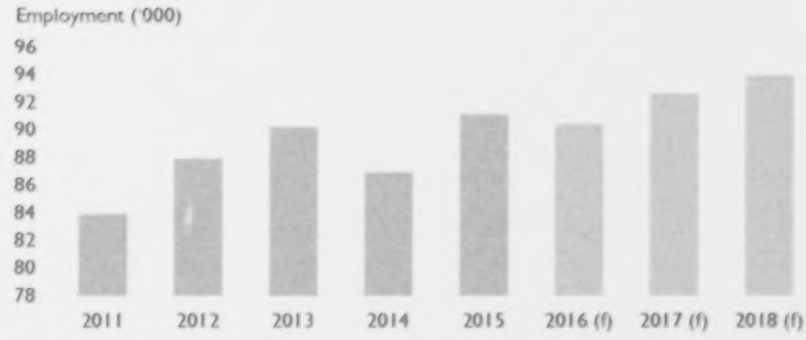
[21] Along with a small number of infrastructure projects, Abbotsford City has reported an increase in the number of businesses looking to acquire and build on industrial land.

in the CMA. In Figure 13, employment is expected to grow by 2.5 per cent in 2017 and 1.3 per cent in 2018.

Housing demand will be supported by population and household growth. Employment opportunities in the CMA and surrounding centres, such as Chilliwack and Langley, will be a factor that attracts people to the region. Two primary groups of buyers and renters, people between the ages of 25 and 44 and above the age of 60, are expected to grow a combined 2.8 per cent annually. These two groups will comprise almost half the population in the Abbotsford-Mission CMA by 2018. Population growth will increase the number of households. The number of households is projected to grow from 66,248 in 2016 to 68,040 in 2018.[22]

Figure 13

**Employment Levels to Increase in Abbotsford-Mission CMA After a Pull-Back in 2016**




Source: Statistics Canada, CMHC Forecast

[22] BC Stats' PEOPLE 2016 projections.

## Trends at a glance

| Key Factors and their Effects on Housing Starts | |
|---|---|
| Mortgage Rates | Mortgage rates are expected to stay near current levels until the end of 2016, before rising modestly over the forecast horizon. This should contribute to a slight moderation in housing demand by the end of 2018. |
| Population | Population growth among people between the ages of 25 to 44 and people over the age of 60 will support a variety of facets in the housing market, including housing starts and the need for rental accommodations. |
| Employment | Favourable economic conditions will underpin employment growth and encourage migration to the area. |
| Resale Market | Lower prices compared to neighbouring centres along with steady economic fundamentals will be the major drivers of buyer demand. |
| Multiple-Family | An increase in demand for new and resale multiple-family homes. High rental demand has sparked interest to build new rental units while overall lower home prices for ownership have attracted first-time buyers and retirees. |

## Forecast risks

There a number of potential risks to the outlook for the Abbotsford-Mission CMA. The following is a description of potential risks to the forecast for housing starts, MLS® sales and prices in the region.

### Housing starts

Similar to the Vancouver CMA, there has been a penchant by developers to build new purpose-built rental in the region. With economic conditions favouring the construction of new rental buildings, there is an upside risk to the housing starts forecast if these units are quickly moved through the development approval process. A potential increase in land supply provides further upside risk to the forecast. Land constraints in Abbotsford City may increase the construction of multiple-family units in core centers, while the availability of developable land in the District of Mission may increase the development of ground-oriented projects.[23] A downside risk to the starts forecast exists if demand for new multiple-family units weakens, causing inventory levels of unsold new homes to rise and developers to delay construction on new structures.

### MLS® resale and prices

Economic fundamentals, such as low mortgage rates and increasing wages, will eventually not support the current surge of higher MLS® residential sales and prices in 2016.[24] Though a pull-back is expected, any negative shock to these fundamentals may lessen buyer demand further, causing a decline in both MLS® sales and prices. For example, a significant rise in mortgage rates through the forecast period could trigger less demand among first-time homebuyers, a buyer group that is more sensitive to mortgage rates than buyers that are moving down to lower-priced homes.

As many buyers are attracted to the lower prices in the CMA, and in the Fraser Valley in general, a downside risk to the forecast is if prices in the centres that comprise the Real Estate Board of Greater Vancouver trend lower. Lower prices in centres such as Burnaby and Richmond may result in buyers choosing homes in centres closer to Vancouver City, negatively impacting demand for homes in the Fraser Valley.

### Economy and population

Economic and population growth underpins activity in the housing market. Any weakening in the forecast, such as a significant appreciation of the Canadian dollar or weaker job growth, could negatively impact the housing market. Fewer job opportunities, not only in the CMA but in neighbouring centres, would dampen migration to the area. Conversely, if economic conditions perform better than expected, it could boost housing demand, providing an upside risk to both the MLS® resale market and housing starts forecast.

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[23] Estimated that six per cent of land in the District of Mission is in the Agricultural Land Reserve (ALR) compared to Abbotsford City, which has 68 per cent in the ALR.

[24] MLS® sales from January to August in 2016 were 3,684, a 65 per cent increase over the same period in 2015. The MLS® average price during this time period in 2016 was $475,844, 26 per cent above over 2015's level.

## The impact of mortgage regulation changes

On October 3, the Government of Canada announced measures designed to support the health and stability of Canadian housing markets and housing finance system. The measures include new eligibility rules for high ratio insured mortgages (where the loan to value ratio is greater than 80%) and new eligibility criteria for low ratio insured loans (loan-to-value less than 80%) that previously only applied to high ratio mortgages. Under the new measures, all high ratio mortgages will now be "stress tested" to ensure borrowers can afford their loan if interest rates rise. Borrowers will now have to meet higher debt servicing limits calculated using the greater of the contract rate and the Bank of Canada's 5 year posted rate. The latter is currently more than 2% higher than typical contract rates. This "stress test" approach has been applied since 2010 to variable rate mortgages and fixed rate mortgages of a term of less than 5 years. Applying this stress test to loans with terms of five years and longer extends this test to all high-ratio insured mortgages.

As the policy just took effect, it is difficult to precisely evaluate the impacts on housing markets. In general, an increase in mortgage rates affects house prices, sales, and starts negatively. However, the stress test approach affects the size of the insured mortgage for which the home borrower qualifies and it is not an increase in the mortgage rate itself. As a result, borrowers could adjust their purchase behaviour in several ways. For example, they could purchase homes that are less expensive, add more down payment, delay their purchase in order to save additional funds for down payment, or add a co-signor. According to our analysis, from 5 to 10 per cent of all prospective home buyers could be affected during the first year of implementation, but the precise impact will vary depending on specific homebuyer circumstances and behaviours. Considering regional variations in drivers of housing activities, it is also likely that the impact of the announced changes could be different across the country. Taking into account all possible scenarios, the impacts on house prices, sales, and starts are within the lower band of our outer forecasting range that is designed to capture unexpected economic and financial developments, as well as unforeseen regulatory changes at the local, provincial, and national levels.

**Forecast Summary**
**Abbotsford-Mission CMA**
**Fall 2016**

| | 2013 | 2014 | 2015 | 2016(F) | | 2017(F) | | 2018(F) | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (L) | (H) | (L) | (H) | (L) | (H) |
| **New Home Market** | | | | | | | | | |
| **Starts:** | | | | | | | | | |
| Single-Detached | 201 | 251 | 393 | 450 | 530 | 360 | 450 | 350 | 440 |
| Multiples | 548 | 248 | 413 | 680 | 730 | 770 | 830 | 730 | 830 |
| Starts - Total | 749 | 499 | 806 | 1,140 | 1,260 | 1,150 | 1,270 | 1,100 | 1,250 |
| **Resale Market** | | | | | | | | | |
| MLS® Sales | 2,393 | 2,592 | 3,482 | 4,630 | 4,940 | 3,950 | 4,300 | 4,110 | 4,480 |
| MLS® Average Price($) | 338,770 | 353,683 | 379,916 | 456,800 | 480,300 | 499,100 | 524,800 | 537,400 | 565,200 |
| **Economic Overview** | | | | | | | | | |
| Mortgage Rate(5 year)(%) | 5.24 | 4.88 | 4.67 | 4.50 | 4.90 | 4.40 | 5.20 | 4.50 | 5.70 |

| | 2013 | 2014 | 2015 | 2016(F) | 2017(F) | 2018(F) |
|---|---|---|---|---|---|---|
| **Rental Market** | | | | | | |
| October Vacancy Rate (%) | 3.2 | 3.1 | 0.8 | 0.9 | 1.0 | 1.1 |
| Two-bedroom Average Rent (October)($) | 820 | 835 | 864 | 880 | 895 | 910 |
| One-bedroom Average Rent (October)($) | 676 | 684 | 712 | 725 | 740 | 750 |
| **Economic Overview** | | | | | | |
| Population | 178,493 | 180,977 | 183,522 | 185,600 | 188,000 | 190,100 |
| Annual Employment Level | 90,200 | 86,900 | 91,100 | 90,400 | 92,600 | 93,900 |

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 30th September 2016. (L)=Low end of Range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, CREA(MLS®), CMHC Forecast (2016-2018).

# DEFINITIONS AND METHODOLOGY

## New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

**Single-Detached Start:**
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

**Semi-Detached Start:**
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

**Row (or Townhouse) Start:**
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

**Apartment and other Starts:**
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

**Average and Median Single Detached Home Prices:**
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

**New Home Price Indexes:**
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

## Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

**MLS® (Centris® in the province of Quebec) Sales:**
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

**MLS® (Centris® in the province of Quebec) Average Price:**
Refers to the average annual price of residential transactions through the Multiple Listings Services.

## Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

## Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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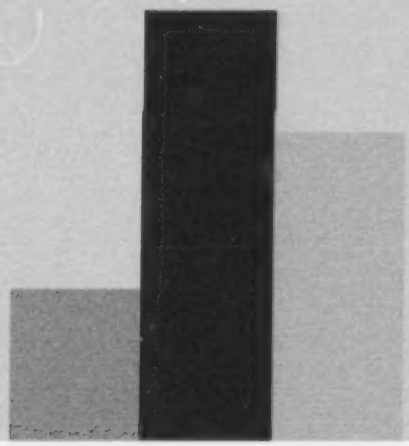

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